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REPORT OF THE
NATIONAL PETROLEUM COUNCIL'S
COMMITTEE ON NATIONAL PETROLEUM EMERGENCY
JANUARY 13, 1949

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PREAMBLE

Pursuant to the request of the Director of the Oil and Gas Division of the Department of the Interior, the National Petroleum Council appointed a Committee on National Petroleum Emergency to report as to the procedures and policies covering Government-Industry Co-operation, which would best meet the requirements of another national emergency, should one arise. In response to this action, your Committee on National Petroleum Emergency is pleased to report herewith.

At the outset, we wish to point out that the subject for the Committee's consideration is exceedingly broad and that a report on it could be extremely elaborate in detail. Your Committee feels that no useful purpose would be served by unduly detailing suggested procedures, and, in view of the uncertainty as to exactly what form the Government's emergency might take in the future; as well as the impossibility of knowing the timing or character of the emergency itself or the unique problems to which undoubtedly it would give rise, it would be unwise to envisage the future solely in the terms of the past. Undoubtedly new situations will arise for which no precedents exist, and the way should therefore be kept open for speedy adaptation to the special requirements of any future emergency.

There are, however, certain fundamental principles that it is believed will be applicable, and certain kinds of relationships which should exist between the petroleum industry, the petroleum agency, and such other agencies of Government as are likely to be established. The Committee wishes to emphasize that such assumptions as to other Government agencies as are made in this report should not be construed as recommendations that such agencies should be created. The Committee also appreciates that there are many relationships additional to those discussed in this report which will exist. Omission of their mention should be not be construed as a recommendation that they will not, or should not exist. The report is intended to apply simply to the petroleum portion of the national effort, and in no way to pass judgment on the manner in which other functions should be performed.

Above all else, the experience of the last emergency has clearly demonstrated that two fundamental principles must be followed by the government if the great resources and abilities of the petroleum industry are to be organized to serve the nation with maximum efficiency during such a period.

The first of these principles relates to the necessity for a specialized vertical rather than a general horizontal governmental organization to deal with the internal problems of the petroleum industry in all its phases. Even more than with the railroads, or the shipping industry, the ramifications of oil are so vast, so specialized, so com-

plex, and so unique as to require a governmental organization of experienced oil personnel, authorized to work with the petroleum industry in all its branches. The intricate problems of petroleum production, transportation, refining and distribution cannot successfully be handled, in an emergency, on a horizontal level by some overall industrial authority, such as the old War Production Board, charged with the duty of regulating industry in general. Moreover, as indicated throughout this report, most of the facilities of the petroleum industry, including oil wells, pipe lines, barges, tankers, refineries and distribution equipment, are usable only in the petroleum industry and can therefore be co-ordinated on a vertical basis without serious conflicts with other industries.

The second of the fundamental general principles which it is believed should guide the government in its approach to petroleum in time of emergency relates to the inefficiency which is likely to result from any attempt to "take over" the industry and the large amount of creative and productive effort which can be brought forward by an industry-government partnership such as existed during World War II. While a great emergency will necessarily require a very considerable abrogation of personal and corporate freedom, best results can be obtained if these controls are held to a minimum and such as are necessary, worked out in collaboration with the executives and technicians of the industry. Only by mobilizing the initiative of individuals all the way along the line and throughout the industry can real solutions be found for the new and presently unpredictable situations which another national emergency will inevitably bring to the nation and its petroleum industry.

Based on the experience of World War II and for other reasons, it is recommended that in the event of another emergency, there should be an organization of the petroleum industry similar to the Petroleum Industry War Council, and that there should be a government agency similar to the Petroleum Administration for War, with an Administrator reporting to the President of the United States. In view of the many values of continuity, so as to take full advantage of the accumulated information and the experience of working together in co-operative relations, it is assumed that such new emergency organizations would take over the functions of the Oil and Gas division, the National Petroleum Council, and the Military Petroleum Advisory Board.

The Committee considers it of the utmost importance that war-time activities be decentralized as they were in World War II, by the creation and full use of district, local and functional industry committees.

The Petroleum Administration for War will have two principal spheres of responsibility, and all of the government authority with respect thereto should be lodged with the Petroleum Administration for War and it should be clearly understood that such authority would be temporary, and would be liquidated at the end of the emergency. The first of the Petroleum Administration for War's responsibilities will be for everything having to do with the physical operations of the petroleum industry, which responsibility should extend completely, both in the foreign as well as the domestic fields. Because natural gas is produced to a large extent in conjunction with oil, and liquefied petroleum gases are primarily by-products of oil refining operations, it is recommended that Petroleum Administration for War should be responsible for natural gas producing operations, and for all liquefied petroleum gas operations. For this purpose the Petroleum Administration for War should be organized along appropriate functional lines, paralleling those of the industry, such as materials, production, refining, supply, transportation, and distribution. There should be appropriate provision at a high staff level for co-ordination or programming of operations. Typical of the activities of the Petroleum Administration for War in connection with industry operations would be the following:

- (a) Programming of requisite crude oil production, refinery runs etc;
- (b) Determination of yields to which the industry should run its refineries;
- (c) Allocation of such essential materials as may be available by other government agencies so as to best accomplish the oil program;
- (d) Allocation of transportation available for these purposes;
- (e) Allocation of manpower made available to the oil industry;
- (f) Adjustment of individual petroleum product prices within the general level of oil prices fixed by the economic agency as explained in more detail below.

Although it is recognized that the oil industry will of necessity have dealings with government agencies other than the Petroleum Administration for War in general, and so far as possible, government-industry relationships in respect to oil should be channeled through the Petroleum Administration for War, and the operational aspects of the Petroleum Administrator for War's work should be planned and organized with this objective in view.

The second major sphere of responsibility will be in the allocation of available oil supplies to various claimants for petroleum. For example, should claims from the armed forces, coupled with claims from Allied governments, and superimposed on claims from the government agency responsible for the civilian economy exceed total available supply, the Petroleum Administrator should determine the percentage by which each claimant must accept a reduction. For this purpose the Petroleum Administration for War might to advantage establish a special department, which would constantly study the changing requirements for petroleum as developed by the various agencies of government which in themselves would be claimants on the Petroleum Administration for War for petroleum.

Beyond these rather definite responsibilities, there is a broad area wherein oil is concerned, within which it seems to your Committee that other agencies of government must have a part to play. For this reason it is of the greatest importance that each of the other government agencies having an interest in oil have on its staff competent oil people. In this connection it is the Committee's strong recommendation that the various government agencies, particularly the Petroleum Administration for War have complete freedom as to conditions of employment covering personnel, so that men or women of the required capabilities may be induced to serve without prejudice to their prewar industrial employment or their assumed postwar return to such employment.

So long as faithful fulltime service is given by individuals drafted from industry for positions of policy making or executive responsibility, these individuals should not be required to divest themselves of annuity or insurance benefits or perquisites, leave of absence pay, or investment, provided, always, that such individuals should not be required or permitted to act for government in direct dealings with their prior industrial employers. In so far as part-time or per diem consultants are concerned, the same rule should apply.

It is appropriate at this point to comment on the very real value of inter-agency committees in carrying forward a national emergency effort. Through such committees an understanding of the fundamental position in respect to oil can be made available to each of the interested agencies, and so facilitate the relative evaluations of the many programs calling for priorities.

There follow descriptions which are intended to be primarily illustrative of the relationships which should exist between the Petroleum Administration for War and the various other government agencies which it is expected will exist.

INTER-AGENCY RELATIONSHIPS

The Committee recognizes that many government agencies other than the Petroleum Administration for War have interests in oil. To the end that all agencies dealing with oil may have their oil activities properly co-ordinated, it is recommended that in the event of an emergency, appropriate inter-agency committees be promptly established, and that supplementing these committees, liaison officers be appointed as necessary to act between the various agencies.

STATE DEPARTMENT

The State Department will have primary responsibility for the relations of the United States with other nations. To the extent that oil supplies to other nations are a factor in international relationships, the State Department will in effect be a claimant agency on the Petroleum Administration for War, and its recommendations should receive the fullest consideration by the Petroleum Administration for War. The responsibility for oil supply programs to other nations, pursuant to recommendations by the State Department, should rest with the Petroleum Administration for War.

ARMED SERVICES

The services should keep the Petroleum Administration for War fully advised as to their inventory positions and consumption requirements for oil over as long a future period as may be practical. Consistent with considerations of security, these requirements should be broken down by major areas.

It is anticipated that the Armed Services will have certain responsibilities in relation to home defense and plant protection. In these fields, proper co-ordination with the Petroleum Administration for War is essential. In a future emergency, plant protection may be of very great importance. Presumably the Armed Services, together with the Federal Bureau of Investigation, and perhaps new agencies acting in the field of home defense, will play an important part in this field. Though the primary responsibility will rest on the Armed Services and other appropriate agencies, a high degree of co-operation with the Petroleum Administration for War and through the Petroleum Administration for War with the oil industry will be essential.

Should the Armed Services take over control of an area in which oil operations are being carried on (particularly producing or refining operations), it is recommended that, subject to the overall control of the military, the Petroleum Administration for War continue primarily responsible for oil operations.

Intelligence will, of course, be the primary responsibility of the Armed Services, and of the Central Intelligence Agency. In the field of interpretation of intelligence as it relates to enemy and allied oil resources, the Petroleum Administration for War can be of great assistance to the Armed Services and the Central Intelligence Agency, and should co-operate fully with them pursuant to such security regulations as they may impose.

DEPARTMENT OF JUSTICE

To carry out the program contemplated by this report in the event of an emergency will require co-operative efforts under government supervision by many units in the oil industry. Such efforts, if they are to be effective, must receive prompt clearance from the Department of Justice under statutes authorizing the granting of immunity from anti-trust prosecution. Establishment of proper authority and procedure for obtaining such clearance expeditiously is essential.

WAR PRODUCTION BOARD

It is assumed that in another emergency, there would be created an agency equivalent to the War Production Board in World War II. In respect to oil supplies for essential industries, the War Production Board will be a claimant agency on the Petroleum Administration for War. In respect to materials for carrying on of the petroleum industry both domestic and foreign, the Petroleum Administration for War will be a claimant on the War Production Board.

It is essential to the successful accomplishment of its mission that the Petroleum Administration for War be able to claim and secure the materials, equipment and supplies necessary to petroleum operations. Once the War Production Board has determined the overall availability of essential materials and supplies for petroleum purposes, it is suggested that, as was done in World War II, it can to advantage delegate its authority for allocation to particular uses to the Petroleum Administration for War. This procedure would permit the oil companies to obtain their supplies with only one government contact and that contact the one most competent in the petroleum field.

In instances in which the finished products are themselves allocated by the War Production Board, the Petroleum Administration for War should claim, receive and re-allocate the products.

In instances where the requisite products are not allocated, the Petroleum Administration for War should claim, receive and allocate to manufacturers or to scheduling agencies, the raw materials necessary to produce such articles; and should be authorized by the War Production Board or its equivalent agency to participate in scheduling of the manufacture of such products.

TRANSPORTATION

Because transportation is such an important and integral part of the task of supplying petroleum products to points of need; because petroleum transportation facilities are so highly specialized and with the exception of tank cars, of a character little used for the movement of other commodities; and because it cannot be separated from the other functions of the industry and the agency having primary responsibility for petroleum supply; it is imperative that the Petroleum Administration for War should have final determination of the use of all forms of petroleum transportation.

Ocean Shipping

The War Shipping Administration or its equivalent will be a claimant agency on the Petroleum Administration for War for fuels and lubricants for ships, and the Petroleum Administration for War will be a claimant on the War Shipping Administration for tanker tonnage to transport oil. The War Shipping Administration should have full responsibility for the design and construction of tanker tonnage, and should obtain from the Petroleum Administration for War forward estimates of necessary petroleum transportation, so that it can weigh these requirements against other shipping requirements and shipbuilding capacity.

Such tankers as are made available by the War Shipping Administration for the transportation of oil other than for the armed services, should be allocated by the Petroleum Administration for War or if as was the case in World War II ship operation is thereby facilitated, allocated by the War Shipping Administration pursuant to instructions by the Petroleum Administration for War.

Inland Transportation

The inland transportation of petroleum products is equally as important as production and refining. It consists of four separate entities -- pipelines - barges - rail tank cars - and tank trucks. With very few exceptions, not one of these modes of transportation is in and of itself a complete service - each must be supplemented at one time or another by one or more of the other forms of transportation; all must be co-ordinated with each other.

In addition, a substantial portion as all of this transportation is either owned or controlled directly or indirectly by the petroleum industry itself. Because of this, and the need for co-ordinating the four methods, it becomes imperative that if efficient and expeditious handling of oil transportation facilities is to be obtained, that the same agency handling the production, refining, and marketing of petroleum products should also handle its transportation requirements.

I. Pipelines

The allocation of space in the lines and terminal storage facilities and the direction of flow should be under the jurisdiction of the Petroleum Administration for War.

II. Barges and Inland Water Transportation

The allocation of barge and other inland water transportation facilities made available for the transportation of bulk petro-

leum products and terminal storage facilities used for bulk petroleum should be under the jurisdiction of the Petroleum Administration for War.

III. Railroad Tank Cars

The assignment of the tank cars as between industries, the routes of movement, maximum utilization and maintenance, should rest with the transportation agency. The determination of the use of the cars assigned to the petroleum industry should rest with the Petroleum Administration for War.

IV. Tank Trucks

The ownership of petroleum tank trucks is divided between the petroleum industry and common and contract carriers. However, the equipment of each is similar in character and can be substituted one for the other. Therefore, the allocation and use of all tank trucks, private and for hire, operated for the petroleum industry, should be under the jurisdiction of the Petroleum Administration for War.

V. Other Bulk Liquids

It is recognized that there are many other bulk liquids, such as alcohol, vegetable and animal oils, and chemicals which are transported in some of the same facilities, used by the petroleum industry. Because of the predominant use of this equipment by the petroleum industry, it is recommended that any program for the transportation of other bulk liquids be co-ordinated with petroleum transportation.

PLANT PROTECTION

It is possible that in a future emergency, there will be a government agency primarily responsible for home defense. The very important problem of plant protection will be an essential part of home defense, and it will be incumbent on the Petroleum Administration for War to co-operate with such new agency, the Federal Bureau of Investigation and the Armed Services as their responsibilities in this field become established.

Your Committee wishes to emphasize that efficient plant protection is likely to be even more essential in a future emergency than it has been in the past, and to suggest for this reason the Petroleum Administration for War organization, when established, appoint thoroughly competent personnel to function in this field.

MANPOWER AND PERSONNEL

The Petroleum Administration for War should act as necessary through the War Manpower Commission or its equivalent to retain essential personnel subject to draft and to obtain new personnel as necessary to accomplish the Petroleum Administration for War programs. It is suggested that the Petroleum Administration for War can be of considerable assistance to other agencies in helping them to obtain suitable personnel for staff positions. The Petroleum Administration for War should co-operate fully in this respect, and what was said in the preamble of this report as to conditions of employment is again emphasized.

ECONOMICS

Your Committee anticipates that in the event of emergency, certain projects will have to be undertaken which will involve expenditures which would not be commercially justifiable. It similarly contemplates that certain functions of the oil industry will have to be carried out by abnormal means and at abnormal costs. Presumably, there will be an agency of government similar to the Reconstruction Finance Corporation which would have authority and resources designed to provide financial assistance in such situations. The Petroleum Administration for War should be the agency through which such assistance would be sought in behalf of the oil industry.

PRICES AND RATIONING

It is assumed that in the event of another emergency, one or perhaps two agencies of government would be responsible

- (a) for the maintenance of the economy and
- (b) for the design and administration of rationing.

Such agency should have full responsibility for establishing the general level of prices in the petroleum industry, but the Petroleum Administration for War should be consulted before the establishment of or change in such general level of prices, and should have the right to recommend overall price changes whenever in its opinion the established level of prices threatens to jeopardize the maintenance of an adequate supply of crude oil or products. Subject to the overall price responsibility of the price-fixing agency, moreover, the need to change refinery yields of oil products from time to time to meet changes in requirements for the different products makes it important that the price-fixing agency vary prices on individual products on the recommendation of the Petroleum Administration for War so long as total revenue is kept within the limits established by the price-fixing agency.

As to rationing, it is recommended that the agency responsible have complete jurisdiction as to the mechanics and enforcement of the rationing programs, and that the Petroleum Administration for War be responsible for determining the total amount of petroleum available for civilian use. It is further recommended that because of its knowledge in the matter of petroleum uses, the Petroleum Administration for War

act in an advisory capacity with the Rationing Agency. During World War II this was accomplished through the medium of a "Petroleum Rationing Policy Committee".

It is anticipated that some agency, possibly the economic agency referred to above, will in effect be the claimant agency on the Petroleum Administration for War for civilian requirements and that this agency would estimate the needs of the civilian economy and that such needs would be one of the several oil requirements claimed for the Petroleum Administration for War.

MISCELLANEOUS

Procurement - Many agencies of government procure or purchase Petroleum supplies. It is the Committee's recommendation that the ordinary peacetime procurement arrangements would continue during the emergency, and that the Petroleum Administration for War should not be interposed as a procurement agency between the industry and the government agencies consuming oil.

Statistical - A number of statistics on petroleum are normally accumulated by various government agencies. There is no reason why these should be changed in the event of an emergency. However, the Petroleum Administration for War and in fact other agencies will require additional statistics in the event of an emergency, and these should be prepared as necessary in the easiest and most efficient manner possible. All petroleum statistics should be made available to and co-ordinated in the Petroleum Administration for War. A possible exception would be certain military statistics which should be excluded for reasons of security. These exceptions, however, should be kept to a minimum. With the object of the fullest possible understanding of the petroleum problem, the Petroleum Administration for War should make freely available its statistical data on petroleum to the other government agencies interested.

INTERNATIONAL RESPONSIBILITIES OF PETROLEUM ADMINISTRATION FOR WAR AND THE PETROLEUM INDUSTRY

Important as were overseas oil supplies in World War II, your Committee anticipates that, in the next emergency, these will be of even greater importance. So that there may be effective co-ordination in the oil effort of the United States and its allies, there should be established appropriate petroleum representatives to deal in behalf of the Petroleum Administration for War with the petroleum departments of the Allied Governments.

The industry's effort abroad can be made more effective through the establishment of the equivalent of the Foreign Operations Committee which, in the last National Emergency, proved of inestimable value. The Foreign Operations Committee should, in turn, have authority to appoint regional and functional subcommittees as necessary.

In a future emergency the complexity of achieving the essential world, or at least hemispheric programming of petroleum supplies, is likely to require the establishment of the Petroleum Administration

for War regional offices in foreign areas, such as the Caribbean and Far or Middle East.

INDUSTRY PARTICIPATION

The effective execution of a petroleum emergency effort requires the fullest co-operation by the oil industry. The Committee believes that the industry organization, functioning at the end of World War II, was performing very well, and has no changes to recommend in this particular respect. In the event of another emergency, it is recommended that an industry organization be reactivated along the lines obtaining toward the end of World War II, representative of all areas and segments of the industry, both large and small, along national, district, zone and area lines, paralleling the Petroleum Administration for War organization.

PETROLEUM INDUSTRY WAR COUNCIL AND GENERAL

Because the next emergency is expected to be more acute and greater than the last, there are some who feel that it will call for a drastically new technique to meet it. Your Committee is unanimously of the view that the basic principles underlying the Petroleum Administration for War - Petroleum Industry War Council relationship in World War II were, and are, absolutely sound, and in fact essential to success. Among these principles are:

- (a) Freedom of discussion.
- (b) Subject to security, complete information.
- (c) Stimulation of and reliance on the resourcefulness and ingenuity of individuals.
- (d) Adherence to sound economics to accomplish established objectives.
- (e) Adherence insofar as possible to the principles of free enterprise as being those best calculated to produce maximum results.

The Petroleum Industry War Council organization served admirably in the effectuating of these principles. Representing as it did all segments of the industry, it provided an appropriate forum for discussion, made possible the wide dissemination of essential information, and brought the industry together in the pursuit of a common objective, ie., victory, in an entirely unique manner. The Council therefore, recommends that in the event of another emergency, the Petroleum Industry War Council or its equivalent be promptly established, and that it function along similar lines to those of the Petroleum Industry War Council in World War II.

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